

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Credit Enhancement Program
Activity Status Report and Annual Program Update

ITEM NUMBER: 10

ATTACHMENT(S): 3

ACTION: _____

DATE OF MEETING: May 1, 2002

INFORMATION: X

PRESENTER(S): Jean Kushida Uda

Activity Status Report

CalSTRS is underwriting a new confirming letter of credit in support of a refunding bond issue for the City of Madera. CalSTRS will be backing a California-based bank. CalSTRS will be in a second-loss position.

The par amount of the refunding bonds is approximately \$5.2 million. The original and subsequent bond proceeds were used to finance construction and improvements to the Madera Municipal Golf Course. Madera is located twelve miles north of the city of Fresno. The transaction is expected to close in May.

The monthly summary reports for credit enhancement program are shown in Attachment 1 and 2.

Annual Program Update

One of the 2001-02 Investment Office objectives is to provide an Annual Program Update on the credit enhancement program. The Annual Program Update is included in this agenda item as Attachment 3.

Background

- CalSTRS commenced its study to develop what is now called the Credit Enhancement Program in 1992. The original intent in studying the program was to explore whether CalSTRS could generate fee income to the fund by assisting construction finance efforts for California public schools. Unfortunately, restrictions in the California Education Code prohibited such transactions. However, the research indicated that there was a good market opportunity for CalSTRS to generate fee income as a credit enhancer for public and private activity bonds in the state of California.
- The initial report to the Teachers' Retirement Board on the program was in May 1992. Since the program inception, a number of program updates have been made to the Investment Committee. The most recent presentation was July 2001.

CalSTRS CREDIT ENHANCEMENT PROGRAM
PROGRAM SUMMARY AS OF MARCH 31, 2002

Transaction	LOC #	Type	Closing Date	End of Commitment	Principal Commitment	Interest Commitment	Total Commitment	Fiscal 2001-02 Fee Income	Fee Income To Date
DIRECT RISK									
Port of Long Beach	--	Liquidity	Jul-01	Jul-06	\$87,500,000	\$0	\$87,500,000	\$118,233	\$630,092
LA Fairplex	34	Credit	Sep-00	Sep-07	\$19,700,000	\$265,545	\$19,965,545	\$104,470	\$627,207
San Diego UPD, Series A	20	Credit	Oct-97	Oct-02	\$27,500,000	\$2,576,712	\$30,076,712	\$25,989	\$124,124
San Diego UPD, Series B	21	Credit	Oct-97	Oct-02	\$22,500,000	\$2,108,219	\$24,608,219	\$25,569	\$128,179
Pasadena Parking Authority	41	Credit	Jul-01	Jul-04	\$7,850,000	\$605,104	\$8,455,104	\$9,122	\$9,122
Pasadena Rosebowl	42	Credit	Jul-01	Jul-04	\$13,850,000	\$245,885	\$14,095,885	\$14,629	\$14,629
Kern High School 1995A	43	Credit	Aug-01	Aug-04	\$5,800,000	\$114,411	\$5,914,411	\$20,711	\$20,711
Kern High School 1995B	44	Credit	Aug-01	Aug-04	\$4,425,000	\$87,288	\$4,512,288	\$15,794	\$15,794
CHFA HMRB 1999 Series P & Q	28a	Liquidity	Dec-99	Apr-04	\$10,466,250	\$648,908	\$11,115,158	\$15,383	\$46,773
Lewis & Clark	32	Credit	Jun-00	Jun-05	\$25,000,000	\$2,284,932	\$27,284,932	\$126,216	\$282,482
CHFA Multi-family 2000 A & B	36	Liquidity	Nov-00	Jul-05	\$24,821,250	\$1,538,918	\$26,360,168	\$57,196	\$66,744
CHFA Multi-family 2000 C & D	37	Liquidity	Nov-00	Nov-05	\$20,558,750	\$1,274,643	\$21,833,393	\$48,596	\$55,241
Kern High School 2001	45	Credit	Aug-01	Aug-04	\$12,900,000	\$302,792	\$13,202,792	\$43,569	\$43,569
DIRECT RISK SUBTOTAL					\$282,871,250	\$12,053,357	\$294,924,607	\$625,477	\$2,064,667
DIRECT RISK - SECURED									
Buck Research on Aging	46	Credit	Dec-01	Dec-06	\$27,800,000	\$402,148	\$28,202,148	\$24,677	\$24,677
BOND INSURED									
Adventist West	--	Liquidity	Feb-98	Feb-05	\$114,500,000	\$1,693,973	\$116,193,973	\$128,616	\$660,892
CHFA 1998 Series P	27a	Liquidity	Apr-99	Dec-04	\$9,125,000	\$707,188	\$9,832,188	\$10,686	\$38,530
CHFA 1998 Series T	27b	Liquidity	Apr-99	Dec-04	\$4,793,750	\$371,516	\$5,165,266	\$5,413	\$19,130
CHFA 1998 Series M	27c	Liquidity	Apr-99	Dec-04	\$15,076,000	\$1,168,390	\$16,244,390	\$20,594	\$76,303
CHFA 1999 Series O	28b	Liquidity	Dec-99	Apr-04	\$18,948,750	\$1,468,528	\$20,417,278	\$25,626	\$74,046
CHFA 2000 Series C	29a	Liquidity	Jan-00	Apr-04	\$10,625,000	\$658,750	\$11,283,750	\$13,791	\$35,356
CHFA 2000 Series D	29b	Liquidity	Jan-00	Apr-04	\$19,887,500	\$1,541,281	\$21,428,781	\$26,677	\$70,286
CHFA 2000 Series G	29c	Liquidity	Apr-00	Apr-04	\$17,433,750	\$1,080,893	\$18,514,643	\$22,659	\$52,390
CHFA 2000 Series H	29d	Liquidity	Apr-00	Apr-04	\$28,132,500	\$2,180,269	\$30,312,769	\$37,677	\$89,173
CHFA 2000 Series J, L, N	29e	Liquidity	May-00	May-03	\$30,091,250	\$2,332,072	\$32,423,322	\$39,727	\$85,257
CHFA 2000 Series K	29f	Liquidity	May-00	May-03	\$29,376,250	\$3,794,432	\$33,170,682	\$41,403	\$88,376
CHFA 2000 Series U	35	Liquidity	Oct-00	Oct-03	\$9,748,750	\$745,178	\$10,493,928	\$13,732	\$22,599
CHFA 2000 Series X-1 & X-2	38	Liquidity	Dec-00	Dec-03	\$14,246,250	\$1,088,960	\$15,335,210	\$19,988	\$27,957
CHFA 2001 Series C	39a	Liquidity	Jan-01	Jan-06	\$3,017,500	\$230,653	\$3,248,153	\$3,704	\$4,596
CHFA 2001 Series F	39b	Liquidity	Apr-01	Apr-03	\$6,250,000	\$477,740	\$6,727,740	\$6,072	\$6,072
BOND INSURED SUBTOTAL					\$331,252,250	\$19,539,823	\$350,792,073	\$416,365	\$1,350,963

Transaction	LOC #	Type	Closing Date	End of Commitment	Principal Commitment	Interest Commitment	Total Commitment	Fiscal 2001-02 Fee Income	Fee Income To Date
DIRECT PAY LETTERS OF CREDIT									
APM, Inc. Series 1994A	25	Credit	Aug-99	Jul-04	\$450,000	\$10,060	\$460,060	\$1,452	\$8,318
Altamont/Pkging Series 1994A	25	Credit	Aug-99	Jul-04	\$2,425,000	\$54,214	\$2,479,214	\$3,539	\$17,148
DV Packaging/La Barbera	25	Credit	Sep-99	Aug-04	\$1,095,000	\$24,480	\$1,119,480	\$2,228	\$11,806
Wilson Entities	24	Credit	Sep-99	Aug-04	\$2,300,000	\$51,419	\$2,351,419	\$3,802	\$18,105
Tulip Corporation	31	Credit	Jul-00	Jul-04	\$2,200,000	\$49,184	\$2,249,184	\$0	\$5,938
Santa Clara 1997A (5 yr term)	33	Credit	Aug-00	Aug-06	\$4,235,000	\$71,009	\$4,306,009	\$0	\$18,506
Propak of California	1	Credit	Nov-94	Nov-04	\$1,985,000	\$44,377	\$2,029,377	\$5,852	\$73,213
J. Michelle/Edie Lee	1	Credit	Nov-94	Nov-04	\$1,340,000	\$29,957	\$1,369,957	\$3,796	\$69,864
Pasco Scientific	1	Credit	Nov-94	Nov-04	\$1,805,000	\$40,353	\$1,845,353	\$7,913	\$74,116
American River Packaging	1	Credit	Nov-94	Nov-04	\$1,645,000	\$36,776	\$1,681,776	\$5,118	\$51,917
Intermountain Trading	2	Credit	Feb-95	Jan-05	\$190,000	\$4,248	\$194,248	\$883	\$13,880
Andercraft Products	2	Credit	Feb-95	Jan-05	\$550,000	\$12,296	\$562,296	\$2,343	\$41,434
Sunclipse, Inc. (Alhambra)	2	Credit	Feb-95	Jan-05	\$3,200,000	\$71,540	\$3,271,540	\$6,181	\$84,253
Sunclipse, Inc. (Union City)	2	Credit	Feb-95	Jan-05	\$2,135,000	\$47,730	\$2,182,730	\$4,243	\$60,089
Busseto Foods, Inc. (Rapelli)	2	Credit	Feb-95	Jan-05	\$2,500,000	\$55,890	\$2,555,890	\$4,907	\$66,376
American Zettler	4	Credit	Mar-95	Mar-05	\$1,875,000	\$41,918	\$1,916,918	\$3,838	\$51,240
Contech Engineering Prod.	4	Credit	Mar-95	Mar-05	\$810,000	\$18,108	\$828,108	\$3,092	\$33,585
Evapco, Inc.	4	Credit	Mar-95	Mar-05	\$360,000	\$8,048	\$368,048	\$818	\$14,352
Florestone Products Co.	4	Credit	Mar-95	Mar-05	\$1,075,000	\$24,033	\$1,099,033	\$2,119	\$38,150
Grundfos Pumps Company	4	Credit	Mar-95	Mar-05	\$6,000,000	\$134,137	\$6,134,137	\$11,077	\$139,070
NRI, Inc.	4	Credit	Mar-95	Mar-05	\$1,240,000	\$27,722	\$1,267,722	\$2,419	\$50,083
W & H Voortman, Inc.	4	Credit	Mar-95	Mar-05	\$2,280,000	\$50,972	\$2,330,972	\$5,768	\$51,963
Allwire, Inc.	6	Credit	Mar-95	Mar-05	\$210,000	\$4,695	\$214,695	\$1,159	\$16,189
Fairway Real Estate	6	Credit	Mar-95	Mar-05	\$420,000	\$9,390	\$429,390	\$2,154	\$35,604
S & P Investments	6	Credit	Mar-95	Mar-05	\$885,000	\$19,785	\$904,785	\$2,451	\$35,995
Northwest Pipe & Casing	7	Credit	Apr-95	Apr-04	\$2,250,000	\$50,301	\$2,300,301	\$4,993	\$83,090
Zieman Manufacturing	7	Credit	Apr-95	Apr-04	\$315,000	\$7,042	\$322,042	\$2,382	\$20,270
Carvin Corporation	8	Credit	Jun-95	Jun-04	\$520,000	\$11,625	\$531,625	\$6,205	\$63,449
Kennerley-Spratling	8	Credit	Jun-95	Jun-04	\$1,935,000	\$43,259	\$1,978,259	\$4,120	\$76,714
Staub Metals, Inc.	8	Credit	Jun-95	Jun-04	\$255,000	\$5,701	\$260,701	\$1,218	\$34,096
Walker Spring and Stamping Corp.	9	Credit	Sep-95	Sep-04	\$2,820,000	\$63,044	\$2,883,044	\$11,373	\$84,027
South Bay Circuits, Inc.	9	Credit	Sep-95	Sep-04	\$1,350,000	\$30,181	\$1,380,181	\$3,057	\$47,155
W & H Voortman, Inc.	9	Credit	Sep-95	Sep-04	\$840,000	\$18,779	\$858,779	\$2,074	\$28,518
Red Line Oil Co.	10	Credit	Nov-95	Nov-04	\$930,000	\$20,791	\$950,791	\$3,677	\$30,816
Johansen Dielectrics (JDI)	10	Credit	Nov-95	Nov-04	\$1,025,000	\$22,915	\$1,047,915	\$4,757	\$54,911
Peet's Coffee	10	Credit	Nov-95	Nov-04	\$1,300,000	\$29,063	\$1,329,063	\$5,656	\$65,459
Safariland	13	Credit	Oct-96	Oct-04	\$3,000,000	\$62,137	\$3,062,137	\$4,021	\$46,666
Control Air Conditioning	18	Credit	May-97	May-05	\$4,200,000	\$75,945	\$4,275,945	\$13,517	\$102,373
Cordeiro Vault Co., Inc.	15	Credit	Dec-96	Dec-04	\$475,000	\$10,619	\$485,619	\$2,251	\$29,621
Fibrebond West, Inc.	17	Credit	Dec-96	Dec-04	\$3,790,000	\$84,730	\$3,874,730	\$8,950	\$129,370
DIRECT PAY LETTERS OF CREDIT SUBTOTAL					\$68,215,000	\$1,478,473	\$69,693,473	\$165,403	\$1,977,729

Transaction	LOC #	Type	Closing Date	End of Commitment	Principal Commitment	Interest Commitment	Total Commitment	Fiscal 2001-02 Fee Income	Fee Income To Date
CONFIRMING LETTERS OF CREDIT & OTHER INDIRECT RISK									
Monrovia Redevelopment Agency	CLOC 3	Credit	Jan-98	Jan-03	\$8,300,000	\$238,312	\$8,538,312	\$12,756	\$84,708
Western Saw	CLOC 6	Credit	Jun-98	Jun-04	\$3,180,000	\$47,047	\$3,227,047	\$3,389	\$28,941
St. Vincent de Paul	CLOC 7	Credit	May-99	May-04	\$7,485,000	\$110,737	\$7,595,737	\$20,160	\$76,379
Delta Tau Data Systems	CLOC 8	Credit	Aug-98	Aug-04	\$5,800,000	\$85,808	\$5,885,808	\$5,789	\$74,287
Dix Metals	CLOC 9	Credit	Sep-98	Sep-04	\$5,045,000	\$74,638	\$5,119,638	\$10,864	\$74,572
City of Fillmore	CLOC 10	Credit	Sep-98	Sep-04	\$10,120,000	\$192,973	\$10,312,973	\$10,485	\$61,420
Accurate Engineering	CLOC 12	Credit	Oct-98	Oct-04	\$4,230,000	\$62,581	\$4,292,581	\$4,015	\$36,553
The Terraces/Park Marino	CLOC 13	Credit	Oct-98	Oct-04	\$7,775,000	\$127,808	\$7,902,808	\$0	\$92,157
Santa Paula (Water Supply)	CLOC 14	Credit	Nov-98	Nov-04	\$23,500,000	\$448,110	\$23,948,110	\$24,347	\$134,067
Mission Viejo	CLOC 15	Credit	May-99	May-06	\$31,100,000	\$2,177,853	\$33,277,853	\$41,597	\$234,332
City of Fillmore	CLOC 16	Credit	Mar-99	Jun-04	\$7,345,000	\$137,643	\$7,482,643	\$0	\$48,305
City of Ontario	CLOC 17	Credit	Apr-99	Apr-04	\$8,020,000	\$147,656	\$8,167,656	\$16,335	\$58,542
City of Ontario	CLOC 18	Credit	Apr-99	Apr-04	\$6,430,000	\$116,268	\$6,546,268	\$6,546	\$40,072
Watt Four	CLOC 19	Credit	May-99	May-04	\$2,630,000	\$44,098	\$2,674,098	\$5,437	\$31,135
Evergreen	CLOC 20	Credit	Jun-99	Jun-04	\$2,303,750	\$34,083	\$2,337,833	\$3,052	\$19,902
Fontana Redevelopment	CLOC 21	Credit	Jun-99	Jun-04	\$3,114,361	\$0	\$3,114,361	\$18,686	\$25,001
New United Motor (NUMMI)	CLOC 22	Credit	Jun-99	May-02	\$11,015,000	\$130,369	\$11,145,369	\$29,798	\$90,045
Inland	CLOC 23	Credit	Jun-99	Jun-04	\$44,485,000	\$2,925,042	\$47,410,042	\$71,642	\$288,148
Alameda Point	CLOC 26	Credit	Sep-99	Sep-04	\$10,000,000	\$391,233	\$10,391,233	\$0	\$26,902
Apple Valley	CLOC 27	Credit	Sep-99	Sep-04	\$5,325,000	\$208,332	\$5,533,332	\$5,564	\$28,499
Primerio Grove	CLOC 28	Credit	Dec-99	Dec-04	\$11,715,000	\$112,336	\$11,827,336	\$44,969	\$104,844
Starter/Alternator	CLOC 29	Credit	Sep-99	Sep-04	\$5,000,000	\$73,973	\$5,073,973	\$5,159	\$28,612
Adelanto PUA, Series A	CLOC 30	Credit	Feb-00	Feb-05	\$9,385,000	\$166,616	\$9,551,616	\$4,864	\$34,153
Adelanto PUA, Series B, C	CLOC 30	Credit	Feb-00	Feb-05	\$34,940,000	\$620,305	\$35,560,305	\$17,978	\$126,239
San Francisco Conservatory of Music	CLOC 31	Credit	Mar-00	Mar-05	\$10,000,000	\$170,959	\$10,170,959	\$30,937	\$92,810
Oakland-Alameda Cnty Coliseum	STRS 30	Credit	May-00	May-03	\$51,200,000	\$942,641	\$52,142,641	\$78,857	\$202,184
City of Compton	CLOC 33	Credit	Jun-00	Jun-04	\$6,000,000	\$114,411	\$6,114,411	\$0	\$12,229
Marborg Industries (Term 2 yrs)	CLOC 34	Credit	Jun-00	Jun-03	\$5,425,000	\$82,044	\$5,507,044	\$0	\$15,257
AAA Packing & Shipping Inc.	CLOC 35	Credit	Jun-00	Jun-04	\$3,000,000	\$44,384	\$3,044,384	\$1,556	\$8,250
City of Lake Elsinore	CLOC 36	Credit	Jul-00	Jul-05	\$15,660,000	\$288,316	\$15,948,316	\$32,129	\$80,948
City of Duarte	CLOC 37	Credit	Apr-01	Apr-04	\$6,000,000	\$110,466	\$6,110,466	\$0	\$12,221
City of Vallejo	CLOC 38	Credit	May-01	May-04	\$16,350,000	\$311,770	\$16,661,770	\$0	\$33,324
Megatoys	CLOC 40	Credit	Jun-01	Jun-06	\$3,000,000	\$54,247	\$3,054,247	\$0	\$12,217
Oakland-Alameda Arena	STRS 40	Credit	Jul-01	Jul-04	\$42,300,000	\$2,347,650	\$44,647,650	\$47,394	\$47,394
Beaumont Wastewater	CLOC 41	Credit	Aug-01	Aug-04	\$9,790,000	\$177,025	\$9,967,025	\$19,580	\$19,580
Advance Business Graphics	CLOC 42	Credit	Aug-01	Aug-04	\$6,050,000	\$89,507	\$6,139,507	\$14,581	\$14,581
Santa Clara 2001A	CLOC 43	Credit	Oct-01	Oct-04	\$7,560,000	\$111,847	\$7,671,847	\$26,694	\$26,694
The Ratto Group	CLOC 44	Credit	Nov-01	Nov-04	\$9,845,000	\$145,652	\$9,990,652		
City of Montebello	CLOC 45	Credit	Dec-01	Dec-04	\$8,750,000	\$163,973	\$8,913,973	\$17,828	\$17,828
Plastikon Industries Project	CLOC 46	Credit	Jan-02	Jan-05	\$6,500,000	\$230,795	\$6,730,795	\$0	\$0

*CalSTRS CREDIT ENHANCEMENT PROGRAM
PROGRAM SUMMARY AS OF MARCH 31, 2002*

**Attachment 1
Investment Committee - Item 10
May 1, 2002**

Transaction	LOC #	Type	Closing Date	End of Commitment	Principal Commitment	Interest Commitment	Total Commitment	Fiscal 2001-02 Fee Income	Fee Income To Date
City of Sanger	CLOC 47	Credit	Mar-02	Mar-05	\$16,590,000	\$327,255	\$16,917,255	\$34,304	\$34,304
CONFIRMING LETTERS OF CREDIT & OTHER INDIRECT RISK SUBTOTAL					\$492,263,111	\$14,386,763	\$506,649,874	\$667,292	\$2,477,636

CalSTRS CREDIT ENHANCEMENT PROGRAM
PROGRAM SUMMARY AS OF MARCH 31, 2002

Attachment 1
Investment Committee - Item 10
May 1, 2002

Transaction	LOC #	Type	Closing Date	End of Commitment	Principal Commitment	Interest Commitment	Total Commitment	Fiscal 2001-02 Fee Income	Fee Income To Date
REDEEMED TRANSACTIONS									
REDEEMED SUBTOTAL					\$0	\$0	\$0	\$299,727	\$3,085,233
GRAND TOTAL					\$1,202,401,611	\$47,860,564	\$1,250,262,175	\$2,198,941	\$10,980,905

CalSTRS CREDIT ENHANCEMENT PROGRAM
CREDIT ENHANCEMENT EXPOSURE
PROGRAM SUMMARY AS OF MARCH 31, 2002

Attachment 2
Investment Committee - Item 10
May 1, 2002

Borrower	Financial Institution	Principal Commitment	Interest Commitment	Total Commitment	Portfc Percen
DIRECT RISK *					
Port of Long Beach	(Dexia)	\$87,500,000	\$0	\$87,500,000	7.00%
San Diego Unified Port District	(CIBC)	\$27,500,000	\$2,576,712	\$30,076,712	2.41%
Buck Research Center on Aging	(Bank of New York)	\$27,800,000	\$402,148	\$28,202,148	2.26%
Lewis & Clark	(CIBC)	\$25,000,000	\$2,284,932	\$27,284,932	2.18%
CHFA 2000 Multi-family A & B	(Helaba Bank)	\$24,821,250	\$1,538,918	\$26,360,168	2.11%
San Diego Unified Port District	(CIBC)	\$22,500,000	\$2,108,219	\$24,608,219	1.97%
CHFA 2000 Multi-family C & D	(Helaba Bank)	\$20,558,750	\$1,274,643	\$21,833,393	1.75%
LA Fairplex	(Allied Irish Bank)	\$19,700,000	\$265,545	\$19,965,545	1.60%
Pasadena Rose Bowl	(Bank of New York)	\$13,850,000	\$245,885	\$14,095,885	1.13%
Kern High School 2001	(Bank of New York)	\$12,900,000	\$302,792	\$13,202,792	1.06%
CHFA HMRB 1999 Series P & Q	(Commerzbank Aktiengesellschaft)	\$10,466,250	\$648,908	\$11,115,158	0.89%
Pasadena Parking Authority	(Bank of New York)	\$7,850,000	\$605,104	\$8,455,104	0.68%
Kern High School 1995A	(Bank of New York)	\$5,800,000	\$114,411	\$5,914,411	0.47%
Kern High School 1995B	(Bank of New York)	\$4,425,000	\$87,288	\$4,512,288	0.36%
TOTAL - DIRECT RISK		\$310,671,250	\$12,455,505	\$323,126,755	26%

** These are direct risk transactions. The obligations of CalSTRS and the partner financial institutions are several and not joint. CalSTRS is not responsible for the obligation of the partner financial institution.*

CalSTRS CREDIT ENHANCEMENT PROGRAM
CREDIT ENHANCEMENT EXPOSURE
PROGRAM SUMMARY AS OF MARCH 31, 2002

Attachment 2
Investment Committee - Item 10
May 1, 2002

Borrower	Financial Institution	Principal Commitment	Interest Commitment	Total Commitment	Portfc Percen
INDIRECT RISK & FINANCIAL INSTITUTION EXPOSURE **					
Various borrowers	Union Bank of California, N.A.	\$340,534,335	\$10,358,837	\$350,893,172	28.07
Various borrowers	FSA	\$161,935,000	\$13,614,498	\$175,549,498	14.04
Various borrowers	MBIA	\$145,574,750	\$4,085,281	\$149,660,031	11.97
Various borrowers	Sumitomo Mitsui Banking Corp.	\$42,300,000	\$2,347,650	\$44,647,650	3.57%
Various borrowers	City National Bank	\$25,375,000	\$387,925	\$25,762,925	2.06%
Various borrowers	AMBAC	\$23,742,500	\$1,840,044	\$25,582,544	2.05%
Various borrowers	The Sakura Bank, Ltd.	\$23,600,026	\$434,499	\$24,034,525	1.92%
Various borrowers	United California Bank	\$22,990,000	\$397,158	\$23,387,158	1.87%
Various borrowers	Bank of America	\$17,240,000	\$380,488	\$17,620,488	1.41%
Various borrowers	Tokai Bank of California	\$11,715,000	\$112,336	\$11,827,336	0.95%
Various borrowers	Bank of Tokyo-Mitsubishi, Ltd.	\$11,015,000	\$130,369	\$11,145,369	0.89%
Various borrowers	Westamerica Bancorp	\$9,845,000	\$145,652	\$9,990,652	0.80%
Various borrowers	General Bank	\$8,300,000	\$238,312	\$8,538,312	0.68%
Various borrowers	Pacific Century Bank, N.A.	\$8,180,000	\$121,020	\$8,301,020	0.66%
Various borrowers	Wells Fargo Bank	\$6,810,000	\$152,246	\$6,962,246	0.56%
Various borrowers	Unibank	\$6,000,000	\$134,137	\$6,134,137	0.49%
Various borrowers	Santa Barbara Bank & Trust	\$5,425,000	\$82,044	\$5,507,044	0.44%
Various borrowers	Hibernia National Bank	\$3,790,000	\$84,730	\$3,874,730	0.31%
Various borrowers	Comerica Bank - California	\$3,850,000	\$86,071	\$3,936,071	0.31%
Various borrowers	Bank of Nova Scotia	\$3,120,000	\$69,751	\$3,189,751	0.26%
Various borrowers	Far East National Bank	\$3,000,000	\$54,247	\$3,054,247	0.24%
Various borrowers	Coast Commercial Bank	\$2,300,000	\$51,419	\$2,351,419	0.19%
Various borrowers	First National Bank	\$2,303,750	\$34,083	\$2,337,833	0.19%
Various borrowers	First Union National Bank	\$1,300,000	\$29,063	\$1,329,063	0.11%
Various borrowers	Mellon Bank	\$810,000	\$18,108	\$828,108	0.07%
Various borrowers	Mellon 1st Business Bank	\$420,000	\$9,390	\$429,390	0.03%
Various borrowers	Fleet Bank	\$255,000	\$5,701	\$260,701	0.02%
TOTAL - INDIRECT RISK & FINANCIAL INSTITUTIONS		\$891,730,361	\$35,405,059	\$927,135,420	74%
TOTAL CREDIT ENHANCEMENT EXPOSURE		\$1,202,401,611	\$47,860,564	\$1,250,262,175	100%

** These are indirect risk transactions. CalSTRS is in a second loss position. CalSTRS is obligated to pay only if the fronting financial institution is unable to.

¹ \$7 million bank risk

² \$14 million treasury/agency-backed securities

³ Treasury or agency-backed securities

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM CREDIT ENHANCEMENT ANNUAL PROGRAM REVIEW

I. PORTFOLIO FUNCTION AND STRATEGY

The CalSTRS Credit Enhancement Program (CEP) is an off-balance sheet component of CalSTRS Investments, enabling CalSTRS to use its existing asset base and liquidity strength to generate fee income for the retirement system. Through a letter of credit, the CEP enables a public or private entity to substitute the CalSTRS' AAA credit rating for the entity's lower credit rating. This substitution allows the public or private entity to have access to the capital markets and enables them to pay lower interest rates to investors. CalSTRS receives fee income for the credit enhancement. The focus of the program is to generate fee income on an opportunistic basis and to underwrite low risk, high quality transactions to achieve a goal of zero losses.

II. HISTORICAL OVERVIEW

- **1992:** CalSTRS commenced a study to determine the feasibility and prudence of establishing a Credit Enhancement Program in order to earn incremental fee income for the system.
- **May 1993:** The Investment Committee authorized the funds to secure credit ratings from Standard & Poor's (S&P) and Moody's, the two most widely respected credit rating agencies. Subsequently, CalSTRS received a AA+ long-term rating and a A1+ short term rating from S&P, a Aa2 long-term rating and a P1 short term rating from Moody's. Later in the year, CalSTRS received a AA+ long term and F1+ short term rating from Fitch.
- **February 1994:** Policies and procedures were first written and approved. Policies and procedures are reviewed annually.
- **June 1994:** CalSTRS executed its first credit enhancement when it underwrote a \$25 million liquidity facility in support of the Port of Long Beach.
- **1999** Standard and Poor's and Fitch raised their respective CalSTRS ratings to AAA, and Moody's raised its rating to Aaa. These are the highest credit ratings possible.

III. CURRENT STATUS

The Credit Enhancement Program has evolved over time by "word-of-mouth" with a limited marketing effort. Many entities requiring credit enhancement have developed a preference for CalSTRS as a credit enhancer because CalSTRS is perceived as being highly stable financial entity. The CEP provides credit enhancement for municipal transactions on an opportunistic basis. Staff is not required to underwrite a quota of transactions or commitments, but rather, to underwrite transactions as opportunities avail themselves and that support program goals.

The CEP program size is limited to 2% of CalSTRS' total assets. The program is currently running at 1.25% of total assets.

The outstanding CEP commitments have increased an average of 35% over the past three years. Annualized fees have increased an average of 29% over the same period.

Month/Year	Commitment Outstanding	# of Transactions	Annualized Fee Income
January 1999	\$512 million	70	\$1.4 million
January 2000	\$783 million	88	\$2.1 million
January 2001	\$1,051 million	104	\$2.6 million
March 2002	\$1,250 million	110	\$3.0 million

Annual business expense runs at approximately \$60,000 for rating agency fees. Approximately 2 FTE divided over 4 people are currently required to manage the program.

IV. PORTFOLIO BY STRUCTURE

The CEP requires that CalSTRS have “partners” on all transactions. Transactions are underwritten on both an “indirect risk” and a “direct risk” basis. In an “indirect risk” transaction, another financial institution, such as a bank or a bond insurance company, is in the first credit loss position and CalSTRS in the second credit loss position. This structuring helps insulate CalSTRS from losses in the event the underlying entity has credit problems.

In a “direct risk” transaction, CalSTRS along with a partner financial institution share the first credit loss position. Naturally, those transactions where CalSTRS is in a “direct risk” position earn higher fees that are proportionate to the risk.

The portfolio, analyzed by structure, shows CalSTRS is in a 2nd loss position in 74% of the transactions. In transactions where CalSTRS is in a direct risk position, there is normally a lien on property or revenue streams that support the credit. The direct risk transactions are highly rated at A+ or higher.

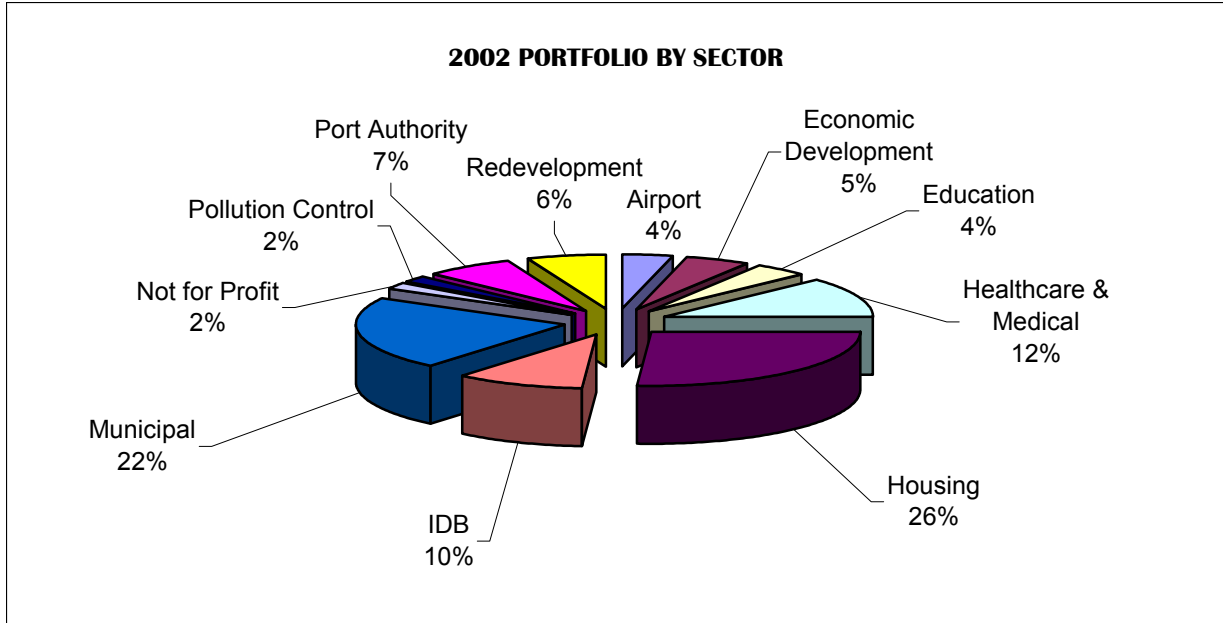
Structure	Commitment	% of Portfolio
Indirect Risk (2 nd loss position)	\$927,135,420	74%
Direct Risk (1 st loss position)	\$323,126,755	26%
Portfolio Total	\$1,250,262,175	100%

Figures as of March 31, 2002

V. PORTFOLIO CONSTRUCTION

The Credit Enhancement Program is well diversified as the following table and chart indicate. The greatest changes in underwriting were in the housing and municipal bond sectors. The holdings of housing bonds decreased from 30% to 26% due to bond principal redemptions and portfolio diversification management. The holdings of municipal bonds increased from 13% to 22%.

Market Sector <i>(figures in millions)</i>	2001 Outstanding	% of Portfolio	2002 Outstanding	% of Portfolio
Airport	\$55	5%	\$55	4%
Economic Development	\$58	5%	\$58	5%
Education	\$45	4%	\$51	4%
Healthcare/Medical Research	\$144	13%	\$144	12%
Housing	\$354	30%	\$321	26%
Industrial Development	\$133	12%	\$128	10%
Municipal	\$164	13%	\$278	22%
Not-For-Profit	\$31	3%	\$30	2%
Pollution	\$9	1%	\$30	2%
Port Authority	\$87	8%	\$87	7%
Redevelopment	\$71	6%	\$68	6%
TOTAL	\$1,151	100%	\$1,250	100%



Figures as of March 31, 2002

VI. Financial Institution Exposure

As stated above, CalSTRS is in a 2nd loss position on 74% of the credit enhancement transactions. Each transaction is a viable transaction based on the underwriting standards of the fronting financial institution. CalSTRS receives additional underwriting support based on the financial strength of the fronting financial institution.

Financial Institution	Total Commitment	Portfolio Percentage
Union Bank of California	\$350,893,172	28.07%
FSA	\$175,549,498	14.04%
MBIA	\$149,660,031	11.97%
Sumitomo Mitsui Banking Corp.	\$44,647,650	3.57%
City National Bank	\$25,762,925	2.06%
AMBAC	\$25,582,544	2.05%
The Sakura Bank, Ltd.	\$24,034,525	1.92%
United California Bank	\$23,387,158	1.87%
Bank of America	\$17,620,488	1.41%
Tokai Bank of California	\$11,827,336	0.95%
Bank of Tokyo-Mitsubishi, Ltd.	\$11,145,369	0.89%
Westamerica Bancorp	\$9,990,652	0.80%
General Bank	\$8,538,312	0.68%
Pacific Century Bank	\$8,301,020	0.66%
Wells Fargo Bank	\$6,962,246	0.56%
Unibank	\$6,134,137	0.49%
Santa Barbara Bank & Trust	\$5,507,044	0.44%
Hibernia National Bank	\$3,874,730	0.31%
Bank of Nova Scotia	\$3,189,751	0.26%
Far East National Bank	\$3,054,247	0.24%
Istituto Bancario San Paolo Di Torino Spa	\$2,555,890	0.20%
Coast Commercial Bank	\$2,351,419	0.19%
First National Bank	\$2,337,833	0.19%
First Union National Bank	\$1,329,063	0.11%
Comerica Bank - California	\$1,380,181	0.11%
Mellon Bank	\$828,108	0.07%
Mellon 1st Business Bank	\$429,390	0.03%
Fleet Bank	\$260,701	0.02%
Indirect Risk Total	\$927,135,420	74.16%

Figures as of March 31, 2002

Some transactions are not only fronted by a financial institution, but are also collateralized at 102% of the transaction, with treasury and agency securities. These transactions total \$59.5 million, or 4.77% of the CEP portfolio. The banks providing the collateralization are as follows:

Financial Institution	Transaction Total (in millions)
City National Bank	\$19.5
Coast Commercial Bank	\$2.4
Far East National Bank	\$3.0
First National Bank	\$2.3
General Bank	\$8.5
Pacific Century Bank	\$8.3
Santa Barbara B & T	\$5.5
Westamerica Bank	\$10.0
TOTAL	\$59.5

Figures as of March 31, 2002

VII. MARKET OPPORTUNITIES

The CEP conducts its business in the short term, variable rate bond market for either governmental entities or private activities that serve a public interest (such as industrial development, pollution control, multifamily). The CEP underwrites letters of credit for these types of securities. The variable rate securities are remarketed, normally on a weekly basis. Financial institutions, primarily banks, are the dominant players in this market.

The market opportunities for credit enhancement are influenced by several factors:

- Infrastructure growth, which is influenced by population and economic growth or slowdown.
- Interest rates frequently determine the issuer's appetite for fixed rate or variable rate bonds. When rates are relatively high, issuers will frequently issue variable rate debt with the intention of refinancing the debt when rates return to lower levels. Conversely, when rates are low, issuers will frequently issue fixed rate bonds for 20-30 years to lock in the fixed rates.
- Certain sectors are dominated by short-term lenders, (e.g. banks) which only support transactions in a variable rate mode. Hence, industrial development bonds, which are the province of banks, usually come to market in a variable rate mode.
- Capacity constraints or capacity limits which restrict the ability of financial institutions to underwrite letters of credit. Opportunities will increase or decrease as supply and demand change.
- Federal laws, which govern the dollar amount of private activity bonds (multifamily housing, pollution control and industrial development).

VIII. Performance Measurement

The CEP is an off-balance sheet investment activity that is pursued for the purpose of earning fee income on an opportunistic basis. The fee income is pursued on an *expected zero loss basis*. Risk minimization is a desired objective, which may result in lower fees, which is acceptable. However, the primary objective is to underwrite transactions on a zero loss basis.

- ✓ **Credit Quality** Staff implemented its own program improvements using a “risk management” grading system based on rating agency standards to aid in the monitoring of the portfolio. The current credit quality of the CEP portfolio is AA-/Aa3.
- ✓ **Fee Income** The current annualized fee income is 24.4 basis points. The benchmark is 22 points.
- ✓ **Zero Losses** There have been no losses in the program since inception.

IX. EXTERNAL PROGRAM REVIEW

In November 2001, KPMG was selected to conduct the study of the CEP. The purpose of the study was to ensure the CEP is operating on a best practices basis. Most of KPMG's recommendations were procedural in nature, and the CEP will incorporate those recommendations into its operational process. KPMG's other recommendations are suggestions to enhance the program (see below).

The scope of their service:

- ✓ Review the program with a top-down approach
- ✓ Determine the overall appropriateness of the CEP within the CalSTRS investment portfolio
- ✓ Analyze the adequacy of management controls and risk management efforts

KPMG reviewed:

- ✓ The CEP program against other states' credit enhancement programs
- ✓ The CEP credit risk management practices
- ✓ The CEP risk mitigation efforts
- ✓ The CEP processes and controls (i.e., policies, procedures & guidelines)

Summary:

- ✓ KPMG concluded that the benefits of the program outweighed the risks
- ✓ KPMG found the program to have a very low-risk portfolio when compared to other AAA rated entities
- ✓ KPMG found the CEP provides a valuable service to government entities or private activities that serve a public purpose
- ✓ The CEP has met the objectives as described in the CEP's policies

KPMG's CEP Enhancements:

- ✓ Consider expanding business to outside the three contiguous states
- ✓ Explore the possibility of transferring the payment and billing responsibilities to a third party

The CEP has begun to research KPMG's suggestions of business expansion and the operational outsourcing. The CEP will present its findings to the Board in a future meeting.